

PRESS RELEASE

EXCESS LIQUIDITY AND MONETARY OPERATIONS

In response to a number of media enquiries about the recent change in the conduct of monetary operations, the Bank of Botswana has decided to issue this Press Statement to provide the background and the justification for the actions taken.

Due to the recurring surpluses in Botswana's balance of payments over the years, the domestic banking system has had excess liquidity. Since the early 1990's these funds have had to be sterilised by issuance of Bank of Botswana Certificates (BoBCs) in an effort to support a level of interest rates at any point in time that would promote financial savings and prudent lending.

The Bank of Botswana continued to incur rising costs by issuing more BoBCs to mop-up increased levels of excess liquidity. It is, however, recognised that access to BoBCs could impede commercial banks' initiatives to seek alternative bankable projects. After a careful review of the current market and economic conditions, the Bank has acted to encourage banks to look more towards financing viable projects that would support economic development and diversification, and reduce the level of outstanding BoBCs.

In the circumstances, the Bank has decided to reduce the amount of BoBCs issued to absorb excess liquidity. Furthermore, excess liquidity could be absorbed through Government Treasury Bills and bonds. The additional beneficial effects of government securities include availing the opportunity for the general public to invest in

government paper as well as distributing the interest income more widely.

As a result of the Bank's direct action of November 2011, the amount of BoBCs outstanding has reduced by approximately P3 billion to about P10 billion.

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